

1.0 Debt Service

Summary

The Debt Service appropriation funds interest and principal due on the State's bonded indebtedness. The Analyst has included a history of debt service payments in recent years and the FY 2000 Debt Service recommendation. Debt Service on Revenue bonds and General Obligation bonds are included in this appropriation.

Financial Summary

	FY 1999	FY 2000	
Financing	Estimated	Analyst	Difference
General Fund	\$79,951,300	\$71,206,700	(\$8,744,600)
Uniform School Fund	8,426,400	20,152,500	11,726,100
Dedicated Credits G.O.	223,500		(223,500)
Transfer - Centennial Highway	28,005,600	38,842,000	10,836,400
Dedicated Credits Revenue Bonds	18,078,600	23,388,600	5,310,000
Beginning Balance	380,100		(380,100)
TOTAL	\$135,065,500	\$153,589,800	\$2,601,400

Constitutional debt limit

The state's constitutional debt limit requires that the total general obligation debt does not exceed 1.5 percent of the total fair market value of taxable property values in the state. For FY 2000, the Division of Finance estimated this limit to be \$700 million after deducting outstanding debt totaling \$1.183 billion.

Statutory debt limit

The State Appropriations and Tax Limitation Act (UCA 59-17a-112) further limits general obligation debt to 20 percent of the allowable spending limit from the General Fund, Uniform School Fund, and Transportation Fund, less debt service. The limitation is established using a formula that includes population growth, inflation, and 1985 appropriations as a baseline. The formula also has flexibility to allow adjustments such as when programs are added or deducted.

For FY 2000, the statutory general obligation debt limit is \$705 million. Currently, outstanding general obligation debt is \$583 million plus \$23 million authorized but unissued. This leaves \$99 million in additional FY 2000 general obligation bonding capacity.

Board of Bonding Commissioners

General obligation debt is issued and managed under the authority of the Board of Bonding Commissioners, which consists of the Governor, the Treasurer, and a member from a political party, different from that of the Governor (UCA 63-56a-1).

Types of state debt

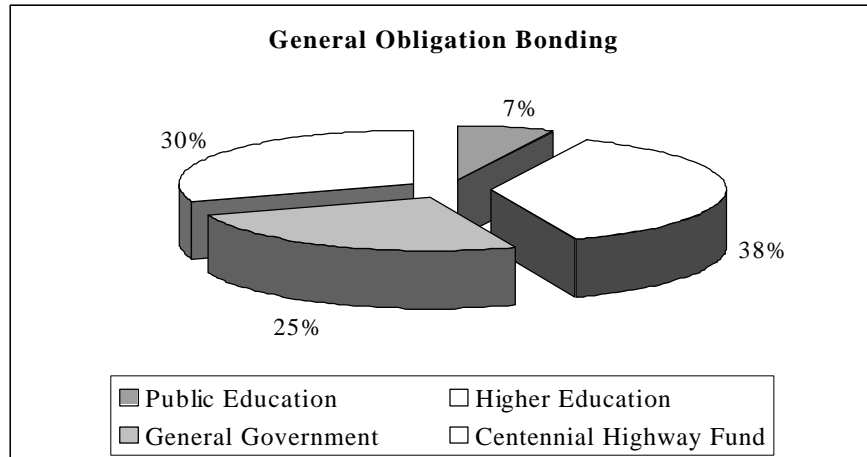
In recent years, the state has generally entered into two types of debt - general obligation bonds and revenue bonds.

- **General obligation bonds** - this debt is secured by the full faith and credit of the State and its ability to tax its citizens to repay the debt. Debt service is provided by appropriation from the General Fund, Uniform School Fund, and from interest earnings on bond proceeds net of any arbitrage.
- **Revenue bonds** - revenue bonds usually carry a higher interest rate than general obligation's and are repaid from revenue otherwise dedicated for lease payments and are generally produced by the asset acquired with bond proceeds. Revenue bonds do not count against the statutory bonding limitation.

2.0 Budget Highlights: Debt Service

2.1 G. O. Debt Distribution

Higher Education and the Centennial Highway project account for nearly 70 percent of all General Obligation bonding over the last two years.



	FY 1999 Estimated	FY 2000 Analyst
G. O. Debt Service		
Public Education	\$8,756,708	\$4,243,531
Higher Education	49,152,581	36,205,457
General Government	33,178,756	50,687,190
Centennial Highway Fund	39,777,344	38,842,012
	<u>\$130,865,389</u>	<u>\$129,978,190</u>

3.0 Programs: Debt Service

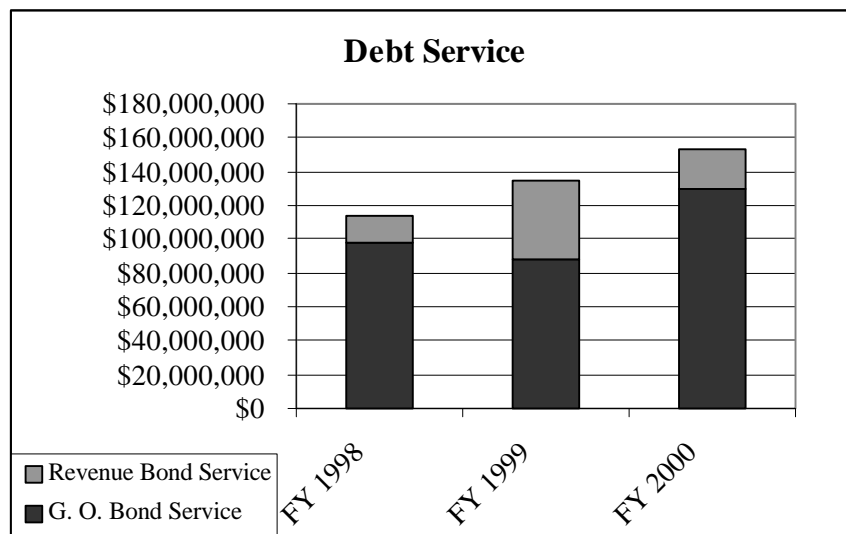
Recommendations

The Analyst is recommending a base budget as requested by the Division of Finance.

	FY 1998	FY 1999	FY 2000	
Programs	Actual	Estimated	Analyst	Difference
General Obligation Principal	\$69,850,000	\$79,951,300	\$77,200,000	(\$2,751,300)
General Obligation Interest	27,849,100	8,426,400	52,678,700	44,252,300
General Obligation Fees	81,000	223,500	99,500	(124,000)
Revenue Bond Principal	4,905,000	18,078,600	11,105,000	(6,973,600)
Revenue Bond Interest	11,180,800	28,005,600	12,441,400	(15,564,200)
Revenue Bond Fees	24,200	380,100	65,200	(314,900)
	\$113,890,100	\$135,065,500	\$153,589,800	\$18,524,300
Financing	FY 1998	FY 1999	FY 2000	
	Actual	Estimated	Analyst	Difference
General Fund	\$79,316,100	\$79,951,300	\$71,206,700	(\$8,744,600)
Uniform School Fund	6,012,000	8,426,400	20,152,500	11,726,100
Dedicated Credits G.O.	2,484,300	223,500		(223,500)
Transfer - Centennial Highway	13,640,800	28,005,600	38,842,000	10,836,400
Dedicated Credits Revenue Bonds	12,000,000	18,078,600	23,388,600	5,310,000
Beginning Balance	436,900	380,100		(380,100)
Total	\$113,890,100	\$135,065,500	\$153,589,800	\$18,524,300

Debt Service Growth

The Revenue Bond total for FY 1999 is higher due to a \$25 million project for Olympic housing at the University of Utah.



Programs	FY 1998	FY 1999	FY 2000
G. O. Bond Service	\$97,780,100	\$88,601,200	\$129,978,200
Revenue Bond Service	\$16,110,000	\$46,464,300	\$23,611,600

**Capital Facility
Financing**

During the 1996 General Session, the following document was accepted as general guidelines for issuance of state debt.

Types of Debt Currently or Previously Used by the State:

General Obligation Bonds - This debt is secured by the full faith and credit of the State and it's ability to tax it's citizens to repay the debt. This type of debt is counted against the state's constitutional and statutory debt limits. In recent years, the State of Utah has only issued General Obligation Bonds with a relatively short term of six year. Other governments typically issue General Obligation Bonds with terms of 10 to 20 years. Appropriations must be made to cover debt service as it starts to accrue when the bonds are issued.

Lease Revenue Bonds - As used by the State of Utah, these bonds are issued by the State Building Ownership Authority which owns the facility and leases it to the using agency or institution. The Authority pays the debt service using rents it collects from the user. These rents are based on appropriations which may come from any funding source including dedicated revenues. The debt is secured by a pledge of future rental payments (subject to legislative appropriation) and a mortgage on the project which was financed. It is not secured by the full faith and credit of the state nor its taxing power. This type of debt is not counted against the statutory debt limits. However, subsection 63-9a-6(2) states the debt issued by the Building Ownership Authority plus other debt issued by the State cannot exceed 1 1/2% of the value of the taxable property of the state. **A statutory change would be required for BOA bonds if G.O. bonds are authorized up to the constitutional limit.** These bonds are typically issued with a repayment period of 20 years. An additional amount is borrowed to cover interest payments during the construction period.

Revenue Bonds - This type of bond may be issued when a revenue stream can be identified and legally restricted for repayment of the bonds. The only state facilities which have been financed using revenue bonds have been in higher education where the revenues pledged have included student fees, housing and other auxiliary services revenues, and reimbursed overhead. In order for the bonds to be marketable, the pledged revenue stream must be substantially larger than the debt service requirements. This type of debt is not secured by the full faith and credit of the state nor its taxing power. This debt is not counted against the state's constitutional or statutory debt limits.

Certificates of Participation (COP's) - COP's are very similar to lease revenue bonds with one major difference. Instead of being a bond issued directly by a governmental entity, COP's represent an undivided interest in a lease agreement. This lease agreement may be entered into by any

entity which has the ability to lease space. Although title to the facility may initially be held by either the state or a private entity, title must pass to the state by the end of the lease term in order for the interest on the COP's to be exempt from federal income tax.

Summary - All of the above are accounted for as debt on the state's accounting records and are considered to be debt by the rating agencies. In addition, the State Auditor issued an opinion in December, 1995 that any General Funds, Uniform School Funds, or Transportation Funds used to retire lease purchase and revenue bond obligations should be counted in the spending limitation formula.

Relative Costs:

The relative costs associated with the various options for financing projects are listed below, ranked from least expensive to most expensive. Specific projects may have circumstances which would affect this ranking. The order for revenue bonds and certificates of participation depends on the nature of the project and the source of funding for the debt service.

1. Cash (state funds)
2. General Obligation Bonds
3. Lease Revenue Bonds
4. Revenue Bonds
5. Certificates of Participation
6. Leasing

The true added cost of bond financing is much less than commonly assumed because most of the state's payments to investors are made in future years using dollars which are cheaper due to inflation. The relative cost of different types and terms of debt fluctuates with the financial market. **As a general rule, a 20 year general obligation bond carries an interest cost which is about two thirds of one percentage point higher than a 6 year General Obligation Bond. A twenty year lease revenue bond carries an interest cost which is about one third of one percentage point higher than a 20 year general obligation bond.** Interest rates for certificates of participation are generally slightly higher than lease revenue bonds. **By far the largest differential in costs occurs between leasing and the other alternatives.**

Suggested Policy Issues:

General Obligation bonding should be the preferred method for critical facilities whose costs exceed the availability of current funding. It is assumed that the need for the facility has received full analysis for justification. Short term bonds (6 to 10 years) should be used when a

facility has no present funding base to service debt. Long term bonds should be used (15 to 20 years) when there is current facility occupancy costs within the agency base budget that could be used for reasonable offset to debt service.

Current market conditions should also be considered when bonding is discussed. For example, if current rates are lower than what the Treasurer is earning on the state investment pool, it may be a favorable time to bond.

Revenue Bonds should be considered when a dedicated source of revenue is available to cover the underwriting requirements. Generally, a coverage ratio is required that is in excess of the actual debt service. Examples would include higher education facilities where the funding source for debt service is not from state funds or Alcohol Beverage Control where revenues are generated from sales. Golf courses that generate revenue from fees could also be considered.

Lease Revenue Bonds or Certificates of Participation should be used if the Legislature is otherwise willing to fund a lease for a long term facility need, and it would be wiser to use those operating funds instead for debt service on a lease revenue bond. Also, this type of funding could be considered when an agency has an outside source of revenue in addition to any existing costs in the budget base. An example would be the State Library where Federal funds are available as lease costs but federal regulation may not allow the funds to be used for debt retirement. Of course, it would be wiser still, to issue a long term General Obligation bond instead and shift the operating funds to debt service. Caution should be exercised by the Legislature to avoid excessive lease purchase obligations since they are treated like debt once funds have been committed. If funds are not appropriated in a given year, the state would enter into a default position. Lease revenue bonds should be issued with a repayment period not to exceed 20 years.

Leasing should be the least expensive option for space which is needed for a short term due to a temporary program or a function that needs to be able to change locations frequently. It is also recommended that DFCM continue to provide funding alternatives for the Legislature when agency "high cost" leases are requested. High cost leases are defined in statute as a real property lease that has an initial term of ten years or more or will require lease payments of more than \$1,000,000 over the term of the lease, including any renewal options.

4.0 Tables: Board of Bonding Commissioners - Debt Service

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Financing	Actual	Actual	Actual	Estimated	Analyst
General Fund	\$73,552,500	\$73,009,400	\$79,316,100	\$79,951,300	\$71,206,700
Uniform School Fund	3,440,000	10,212,500	6,012,000	8,426,400	20,152,500
Dedicated Credits G.O.	5,748,000	2,459,400	2,484,300	223,500	0
Dedicated Credits Rev Bonds	10,443,200	12,310,200	12,000,000	18,078,600	23,388,600
Centennial Highway Fund		0	13,640,800	28,005,600	38,842,000
Beginning Non-Lapsing	1,282,800	40,600	436,900	380,100	0
Closing Non-Lapsing	(40,600)	0	0	0	0
TOTAL	\$94,425,900	\$98,032,100	\$113,890,100	\$135,065,500	\$153,589,800

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Programs	Actual	Actual	Analyst	Estimated	Analyst
General Obligation Principal	\$62,370,000	\$66,025,000	\$69,850,000	\$79,951,300	\$77,200,000
General Obligation Interest	21,310,700	19,407,200	27,849,100	8,426,400	52,678,700
G.O. Bond Fees	79,100	66,700	81,000	223,500	99,500
Revenue Bond Principal	2,875,000	3,445,000	4,905,000	18,078,600	11,105,000
Revenue Bond Interest	7,674,700	9,042,200	11,180,800	28,005,600	12,441,400
Revenue Bond Fees	116,400	46,000	24,200	380,100	65,200
TOTAL	\$94,425,900	\$98,032,100	\$113,890,100	\$135,065,500	\$153,589,800